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DEPARTMENT FOR EUR DAS BRYZA

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TAGS: [ENRG](#) [PREL](#) [PGOV](#) [TU](#) [AJ](#) [GA](#) [ECON](#)
SUBJECT: AZERBAIJAN SCRAMBLING FOR A SOLUTION WITHOUT SHAH
DENIZ GAS

Classified By: CDA Jason P. Hyland, reasons 1.4 (b,d)

¶1. (C) SUMMARY. Deputy Prime Minister Yagub Eyyubov said on December 21 that BP had informed the GOAJ that there would be "at least a three month delay" in Shah Deniz production. He said that BP 's "poor work" on Shah Deniz was "unacceptable," and had greatly worsened the regional gas situation. Eyyubov said BP must compensate Turkey, Georgia and Azerbaijan for the situation in which it has put them. Given these new developments, he said Azerbaijan will have to put limits on consumer gas use and stop oil export to Novorossiisk, using that oil for increased mazut production. However, even with this increased mazut production, Azerbaijan will be facing an energy shortage for the coming winter. Eyyubov downplayed the importance of trilateral energy talks about Shah Deniz gas, saying "Since there is no gas, why talk?" We are continuing to try to ascertain the GOAJ's real capacity for mazut production. END SUMMARY.

BP Must Be Punished

¶2. (C) In a December 21 meeting with the Charge and EnergyOff, DPM Eyyubov said that Azerbaijan's energy balance for the 2007 winter depended on Shah Deniz gas. However, Eyyubov said that BP's "poor workmanship" has caused repeated production delays, the most recent of which is a leak on SD01 (the first Shah Deniz well) at 981 meters depth. Consequently BP had informed the GOAJ that there would be "at least a three-month delay" in Shah Deniz production. These Shah Deniz production delays have greatly worsened the situation, and as such BP has dealt a "political, economic and spiritual blow" to Azerbaijan. Eyyubov continued that BP is responsible for these delays, and so must in some way compensate Azerbaijan, Turkey and Georgia for the "unacceptable" situation it has created.

Gas Rationing, Mazut

¶3. (C) As to the current state of trilateral negotiations among Turkey, Azerbaijan and Georgia for Shah Deniz gas redistribution, Eyyubov quoted a Russian proverb about the futility of arguing over dividing a bearskin when the bear has not yet been caught. "Since there is no gas, why talk?" he asked. He said that the GOAJ needs to clarify the situation in terms of available resources, and then will probably have to put consumer limits on gas usage.

¶4. (C) Eyyubov also said that the GOAJ would have to stop exports of oil via the Baku-Novorossiisk pipeline and use this oil for increased mazut production. However, he said

that for various infrastructure reasons, to include transportation, increased mazut use would not be sufficient to make up the gas shortfall.

15. (C) As for Gazprom, DPM Eyyubov decried the "political" price that Russia was asking for its gas. He pointed out that Azerbaijan and Georgia were being charged USD 235 per thousand cubic meters (tcm), whereas Armenia was charged USD 110, Ukraine 130, Belarus 140 and Moldova 160. (Note: Azerbaijan press reported December 21 that DPM Eyyubov will head a delegation traveling to Moscow today to continue negotiations on gas supplies).

TIME FOR PLAN B

16. (C) COMMENT: It looks increasingly likely that Shah Deniz gas will not play any significant role in alleviating either Azerbaijan or Georgia's winter gas woes, and the GOAJ is now just starting to scramble for an alternate solution in the face of the latest bad news from BP. As Eyyubov mentioned, a combination of gas rationing and increased mazut production will play a key role in any possible GOAJ response. Embassy is currently seeking to ascertain GOAJ capabilities for mazut production. END COMMENT.
HYLAND